

Annual update of non pass-through smart meter net cost change (SMNCC) allowances

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Introduction

The non pass-through (NPT) smart meter net cost change (SMNCC) allowances in the cap reflect the net impact of smart meter rollout on supplier costs, relative to the costs already captured within the operating cost allowance. The allowances are calculated using the NPT SMNCC model and are set separately for credit customers (direct debit and standard credit) and prepayment meter (PPM) customers.

We update these allowances annually so they continue to reflect the latest available data on the costs, benefits and rollout of smart meters. These updates use a defined set of inputs into the NPT SMNCC model and are used to set allowance values each October for the forthcoming year, as set out in our [February 2023 decision](#) on the approach to reviewing the SMNCC allowances.

Before 2023, the methodology used to calculate these allowances was reviewed each year. Following [a consultation in November 2022](#) and our February 2023 decision, we indefinitely paused these routine methodology reviews to provide greater stability and predictability in the framework. The methodology has since been amended only where justified by significant policy developments, including changes arising from the [May 2025 operating costs decision](#).

This year's update continues to reflect the transition to the Government's smart metering framework to 2030. As the previous rollout framework did not provide forecast data beyond 2025, we adopted a temporary rollout assumption in last year's update. In the absence of new forward-looking rollout information, we have continued to apply that temporary assumption for the forthcoming year while we consider the longer-term approach under the framework to 2030.

This letter gives notice of the updated NPT SMNCC allowance values for the period 1 October 2026 to 30 September 2027. The final values are set out in the 'Final allowance values' section of this letter.

Data updates

We have updated the NPT SMNCC model with the latest available inputs. We have also continued to apply a temporary assumption about future smart meter rollout beyond 2025, while retaining the existing methodology for calculating the NPT SMNCC allowances. Details of the updates are below.

2026 Annual Supplier Returns

We have updated the SMNCC model with data from the 2026 Annual Supplier Returns (ASR). These inputs reflect data for 2025 provided by suppliers. We have also updated the GDP deflator estimates and forecasts from the Office for National Statistics (ONS) and Office for Budget Responsibility (OBR) respectively.

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Table 1: Annual data/input updates to the NPT SMNCC model

Area	Components	Sources of data
Costs	Asset costs of smart meters, communication hubs and In-Home Displays (IHDs)	Annual Supplier Returns (ASR)
Benefits	- The number and cost of avoided site visits - Change of supplier benefits (credit only) - Benefits of reduced inbound enquires (credit only) - Improved debt management (credit only) - Benefits of a remote change of tariff (credit only)	Annual Supplier Returns (ASR)
Rollout	- Data on actual customer numbers by metering type to update smart meter roll out percentages for upcoming years - New temporary rollout framework for 2026 onwards (see post 2025 rollout section below)	Annual Supplier Returns (ASR) Previous SMNCC publications
Other inputs	- GDP deflator - Advanced payments - Customer numbers	ONS and OBR Previous SMNCC publications Ofgem analysis of the Tariff and Customer account Request for Information

In line with the table in our February 2023 decision and our analysis for previous annual updates, we have not updated installation costs.

Post 2025 rollout

The previous smart meter rollout framework did not include rollout targets beyond 2025. In March 2026, the Department for Energy Security and Net Zero (DESNZ)

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published the outcome of its consultation on the smart metering framework to 2030. This requires energy suppliers to take all reasonable steps to achieve 100% smart meter rollout by the end of 2030.

Under the Government's smart metering framework to 2030, there are no annual rollout targets or forecast data that can be directly used in the SMNCC model. We therefore need to make an assumption about future rollout in order to calculate the October 2026 to September 2027 allowances values. For this update, we have used the same annual rollout increment that was applied in the August 2025 update. In the absence of any new forward-looking rollout information, we consider that carrying forward the existing assumption is a reasonable and proportionate temporary approach. This provides continuity in the calculation of the allowance while avoiding volatility driven solely by revisions to the temporary rollout assumption. Any differences between assumed and actual rollout may be reflected through the advanced payments mechanism as updated rollout data becomes available.

The latest ASR rollout data is applied to all years after the 2023 baseline in the SMNCC model. For credit customers, rollout is based on a market leader profile, with the market leader selected on the basis of cumulative rollout costs. Where the market leader changes, the rollout profile used in the model can change for all post-baseline years, not just the year being updated. The 2026 update therefore includes revised rollout data for both 2024 and 2025, due to a change in market leader. PPM rollout, however, is calculated using a weighted average methodology and therefore there is no market leader supplier whose identity can change between years.

Future of smart metering costs in the price cap

As the smart meter rollout evolves within the context of the Government's smart metering framework to 2030, we recognise that the way metering costs are reflected in the price cap may need to evolve. This year's approach is therefore intended as a temporary and proportionate basis for setting the October 2026 NPT SMNCC allowances, while preserving the existing methodology and advanced payments mechanism. We consider this provides continuity while we develop our thinking on how the allowance should operate in a framework based on suppliers taking all reasonable steps to complete rollout by 2030.

We are conscious that the current SMNCC approach is complex and allowance values can be sensitive to changes in the underlying data and assumptions. This partly reflects the fact that the current approach was developed at an earlier stage of the smart meter rollout. However, there are challenges with maintaining such an approach in the current context. We expect to consider metering costs as part of our programme of work 2026/27. We are not setting out proposals at this stage, but intend to engage with stakeholders as our assessment develops. As part of this work, we will put a significant emphasis on simplification and predictability in our assessment of future options.

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Advanced Payments

The advanced payments mechanism accounts for the difference between allowances produced using forecasted data and the allowances for the same cap periods calculated using actual data. This difference is then applied to future cap periods.

Annual updates to the customer numbers and changes to the rollout assumption, have also affected the level of the advanced payments adjustment included in this update, alongside their impact on the overall level of the cap.

As we consider the longer-term treatment of smart metering costs under the Government's smart metering framework to 2030, we will be mindful of the role of advanced payments as a mechanism in helping to account for differences between the assumed and actual rollout for the period observed. As actual rollout data becomes available, any such differences may be reflected through the advanced payments mechanism.

Final allowance values

We are today publishing 12 months of final SMNCC values for the period from October 2026 to September 2027. The first set of values applies to cap periods 17a and 17b, covering 1 October 2026 to 31 March 2027, and will remain unchanged across both cap periods. These values are set out in the 'Smart metering net cost change and industry charge methodology (Annex 5)' model, published as part of today's price cap update. For a typical dual fuel customer, the SMNCC allowance for this six-month period will be -£6.93 for credit customers and -£19.35 for PPM customers. Compared with the current cap period (cap period 16b), this represents an increase of £2.06 for credit customers and a decrease of £5.13 for PPM customers.

The second set of values applies to cap periods 18a and 18b, covering 1 April 2027 to 30 September 2027. These values will be implemented through the Annex 5 model published as part of the February price cap update. Table 2 below provides the full breakdown of the SMNCC allowances by cap period, payment type and fuel type.

The changes to the allowance values are mainly driven by updated smart meter rollout inputs. For credit customers, the change in the supplier identified as the market leader, alongside the latest rollout figures, means the model now includes higher rollout levels for the post-baseline years 2024 and 2025 than were used previously. Because the SMNCC allowance is largely driven by the year-on-year increase in rollout, these higher rollout levels result in a higher incremental rollout and therefore a higher allowance.

For PPM customers, rollout inputs are calculated using a weighted average methodology rather than a market leader profile. The allowance has fallen slightly because actual 2025 rollout was lower than the target level previously used in the model. This reduces the year-on-year rollout increment and, as a result, lowers the allowance.

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The values in Table 2 for cap period 17a covering October to December 2026, are the same as the numbers inputted into document ‘Smart metering net cost change and industry charge methodology (Annex 5)’ (‘2a Non pass-through costs’ cells AE8:AE11, credit electricity, credit gas, PPM electricity and PPM gas respectively). The values for subsequent cap periods shown in Table 2 will be reflected in the Annex 5 model published alongside the relevant price cap update. The allowance values for the current cap period (16b) are also included for reference. For the avoidance of doubt, the numbers below include advanced payments.

Table 2: NPT SMNCC values inserted into annex 5 for cap periods 16a, 16b, 17a, 17b, 18a and 18b (£/customer nominal, allowances presented at benchmark consumption)

Payment and fuel type	April 2026 to September 2026 (cap periods 16a and 16b)	October 2026 to March 2027 (cap periods 17a and 17b)	April 2027 to September 2027 (cap periods 18a and 18b)
Standard Credit and Other Payment Methods (Credit) Electricity	-3.06	-1.44	-1.79
Standard Credit and Other Payment Methods (Credit) Gas	-5.93	-5.49	-6.10
PPM Electricity	-5.23	-11.70	-12.17
PPM Gas	-8.99	-7.66	-8.33